

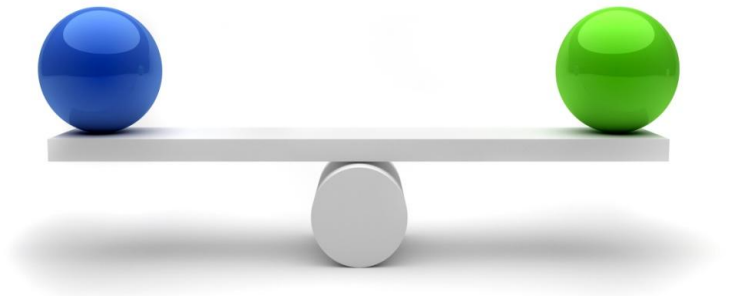
# Actuarial Society of South Africa

## ERM Seminar

**ORSA – A balancing act !**

May 2013

*Private and Confidential*



# Contents

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- 2 Life before and after the ORSA
- 3 Embedding an ORSA
- 4 Lessons learnt from UK / Europe

# 1. ORSA on a page

## Specific expected elements in the ORSA process reporting template

<b>Risk Appetite and Strategy</b>	<b>Business objectives, background and Risk Profile</b>	<b>Validation and Review process</b>
<ul style="list-style-type: none"> <li>• Risk Appetite framework across Group</li> <li>• Appetite, tolerance and limits by risk class</li> <li>• Linkage between strategy and appetite</li> </ul>	<ul style="list-style-type: none"> <li>• Summary of legal and management structure</li> <li>• 3-5 Strategic Business Plan</li> <li>• Annual business plan</li> <li>• Overview of risk profile and Solvency</li> </ul>	<ul style="list-style-type: none"> <li>• Independent external review</li> <li>• Internal Audit report</li> <li>• Validation and Review process across risk, actuarial and finance areas</li> </ul>
<b>Results and analysis of the Solvency Position</b>	<b>Risk &amp; Capital management Framework</b>	<b>Responsibilities of Key Personnel Involved in ORSA</b>
<ul style="list-style-type: none"> <li>• Description of overall solvency needs</li> <li>• Description of risk profile (long and short term)</li> <li>• Demonstration of current and projected compliance with capital requirements and technical provisions</li> <li>• Analysis of change in capital and risk from previous periods</li> </ul>	<ul style="list-style-type: none"> <li>• Governance and system of risk management</li> <li>• Risk and capital management policies</li> <li>• Risk mitigation methods and analysis</li> <li>• System and Controls</li> <li>• Internal model oversight and validation</li> </ul>	<ul style="list-style-type: none"> <li>• BU Board</li> <li>• Group Board</li> <li>• Risk function</li> <li>• Actuarial function</li> <li>• Finance departments</li> <li>• Technology</li> </ul>
<b>Stress Tests Used and the Results</b>	<b>Use tests and Decision making</b>	<b>Process for Conducting the ORSA</b>
<ul style="list-style-type: none"> <li>• Suitability for company's business</li> <li>• Compatibility with SCR results</li> <li>• Reverse stress testing</li> </ul>	<ul style="list-style-type: none"> <li>• Use of ORSA output for key decisions</li> <li>• Use test compliance in key business activities and risk management. e.g.               <ul style="list-style-type: none"> <li>– Capital Allocation</li> <li>– Pricing and product development</li> <li>– Reinsurance purchase</li> <li>– Investment management</li> <li>– Performance management and remuneration</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Description of ORSA process and methodology</li> <li>• Policies for assigning responsibilities as above</li> <li>• Frequency               <ul style="list-style-type: none"> <li>– at least annual</li> <li>– when major changes in risk profile ('triggers')</li> </ul> </li> </ul>

## 2. ORSA on a page – examples areas of change

### Specific expected elements in the ORSA process and reporting template

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# 3. ORSA embedding

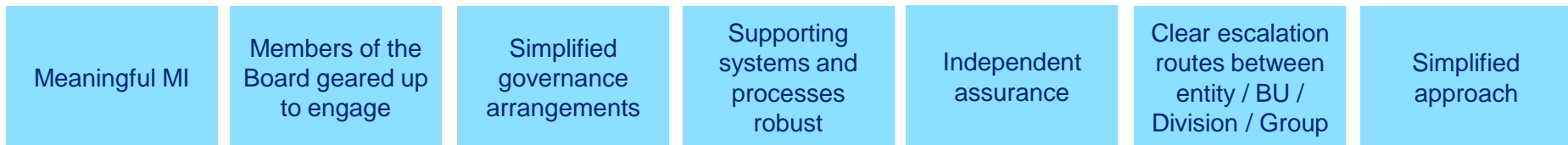
## Board engagement and business decisions



### Board / Executive engagement and use:

- After Board and Executive training sessions, the focus has been on ‘using’ the information in Board and Executive activity:
  - Specifically requesting approval from the Board on what basis to calculate the ORSA
  - Approve the ORSA on the basis that the Board have understood and challenged the results and conclusions
  - Board challenging and deciding on how the process should be improved
  - Using outputs of the ORSA process (results from stress testing, risk profile (current and projected) in the business planning process
  - Linking performance review and incentivisation to performance of ‘ORSA’ activity
  - Use of ORSA output and MI in oversight committees to challenge and oversee management

### Key enablers to demonstrating Board and Executive engagement and use:



### Evidenced in business decisions:



# 3. ORSA embedding

## Management information

- **ORSA is a continuous process**
- Daily
  - Monitoring against capital policy
- Monthly
  - Solvency MI
  - Risk reporting
- Quarterly
  - Balance sheet refresh
  - Business risk profile
  - True-up of solvency monitoring
  - Stress testing refresh
  - Projections refresh
- Annual
  - Annual operating plan
  - Formal ORSA report

## Supported by an annual report

- Group and entity level reports
  - Business environment
  - Risk environment
  - Solvency assessment
  - Risk ranking
  - Stress & scenario testing
  - Reverse Stress Testing
  - Projections
  - Use in decision making
  - Appropriateness of SCR
  - Methodology and assumptions
  - Planned and potential management actions
- Process subject to independent review

## 4. What does a good ORSA look like?

- 1 ORSA Vision and Framework – Universally understood
- 2 Build incrementally – around the framework – not big bang
- 3 Embedding – daily, monthly, quarterly & annually
- 4 Clear alignment with regulatory returns (QRT, SFCR in particular)
- 5 ORSA = main risk report used, replacing old reporting
- 6 Applied to entire business not just regulated entities
- 7 Drives alignment / co-operating of the Finance, Actuarial, Risk and Technology community